

# Board of Directors' report on internal control

The Board's responsibility for internal control is regulated in the Swedish Companies Act and in the Swedish Code of Corporate Governance. The Corporate Governance Report must contain disclosures concerning the principal features of the company's internal-control and risk-management systems in connection with financial reporting and in the preparation of the company's consolidated financial statements. Information on this is provided in this section.

## 1 RISK-ASSESSMENT AND RISK-MANAGEMENT

As a feature of its internal control efforts, NCC implements methodical risk assessment and risk management for ensuring that the risks to which NCC is exposed, and that can impact the internal control and financial statements, are addressed within the company's established processes.

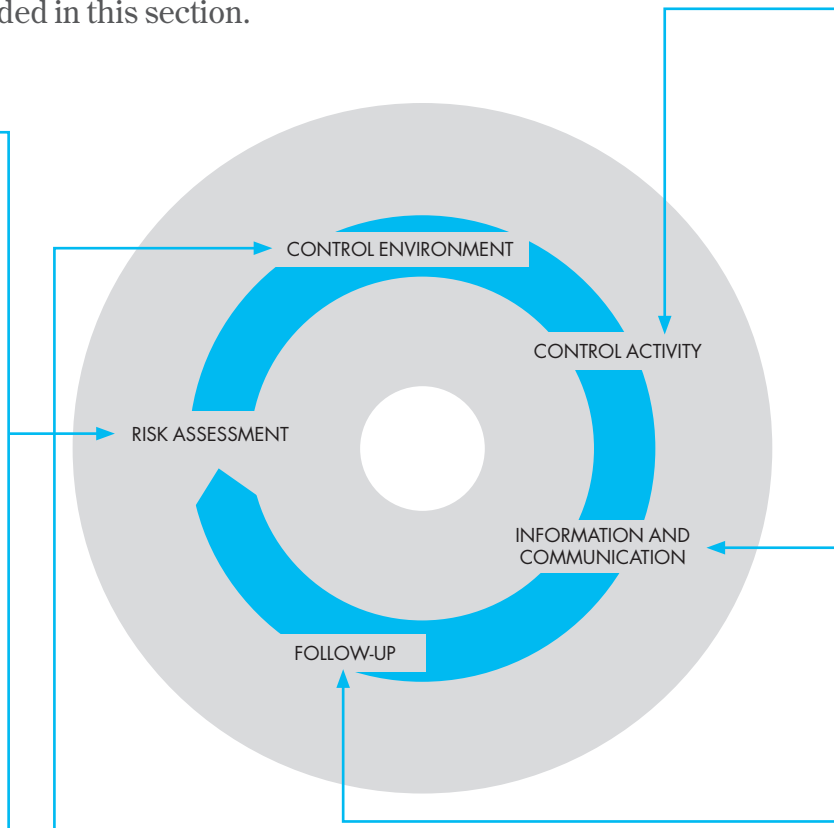
The material risks that have to be taken into account include market risks and operating risks as well as the risk of errors in financial recognition. With respect to the latter, systematic and documented updates occur once annually. The material risks that have to be considered mainly comprise the risk of errors in percentage-of-completion profit recognition and items based on assessments and estimates, such as valuations of land held for future development and ongoing property-development, goodwill and provisions.

At NCC, risks are followed up in several different ways, including via:

- **Regular status checks** with the Business Area Manager and financial manager of each particular business area. Representing NCC AB, the CEO and the Chief Financial Officer (CFO) always attend these meetings. The status checks address such matters as orders received, earnings, major ongoing and problematical projects, cash flow and outstanding accounts receivable. The meetings also address tenders and major investments, in accordance with the decision-making regulations.
- **Business area meetings** in the various business areas, which are held at least five times per year. The meetings are minuted. Those participating in the meeting, in addition to the Head of the business area and members of its management team, are NCC AB's CEO, CFO and Senior Legal Counsel. These meetings address the complete income statement, balance sheet and cash flow statement in terms of both outcome, forecast and alternative budget. Forecasts are formulated and are checked in connection with the quarters ending March, June and September, and in the following-year budget in November. The meetings also address tenders, investments and sales, in accordance with the decision-making regulations. Investments and divestments of properties exceeding SEK 150 M must be approved by NCC AB's Board. All investments exceeding SEK 50 M must be approved by NCC AB's CEO.
- **Major tenders** to be submitted by the business area (exceeding SEK 300 M) must be confirmed by NCC AB's CEO. Tenders exceeding SEK 500 M must be endorsed by NCC AB's Board. The Project Committee is to be involved in projects exceeding SEK 1,500 M. Projects exceeding SEK 300 M are also monitored via the NCC Project Trend Report (PTR) process.
- NCC AB's Board receives monthly **financial reports** and NCC's current financial status is presented at each Board meeting.

Financial risk positions, such as interest rate, credit, liquidity, exchange rate and refinancing risks, are managed by the specialist function, NCC Corporate Finance. NCC's financial policy stipulates that NCC Corporate Finance must always be consulted and, in cases where Corporate Finance sees fit, that it must manage financial matters. Risks that could also influence reporting include breach of NCC's Code of Conduct and shortcoming in insurance coverage. These risks are monitored by the Compliance and Insurance function.

For more information on control and governance at NCC, see the Group's website [www.ncc.se](http://www.ncc.se). The information also includes such documents as the Articles of Association and the Code of Conduct.



## 2 CONTROL ENVIRONMENT

The Board has overall responsibility for internal control and financial reporting. A good control environment is characterized by the company having prepared and complied with established policies, guidelines, manuals and job descriptions. These must be documented and kept available. In NCC, this means that the Board establishes rules of procedure for the Board's work each year. The Board also prepares an instruction concerning the division of work between the Board and the CEO. According to this instruction, the CEO is responsible for ensuring that work on the internal control contributes to an efficient control environment.

The NCC Group is an international organization that governs and conducts its operations in a Nordic operational structure. Operational management of the Group is based on decision-making regulations within the NCC Group that are adopted annually by the Board. The decision-making regulations stipulate the matters that require the Board's approval or confirmation. In turn, this is reflected in the corresponding decision-making regulations and attestation regulations applying to the business areas. The basis for the internal control of financial reporting comprises everything that is documented and communicated in control documents, such as internal policies, guidelines, instructions and other manuals. Considerable effort has been devoted to achieving a structure between the policies that are central and the policies regarded as local, and that all significant areas are covered. The NCC Group's legal governance occurs on the basis of a uniform corporate structure with subsidiaries in each country.

For more information on governance and control, see the Group's website [www.ncc.se](http://www.ncc.se). The information also includes such documents as the Articles of Association and the Code of Conduct.

### 3 CONTROL ACTIVITIES

At NCC, the management of risks is based on a number of control activities that are conducted at various levels for business areas, Shared Service Centers (SSCs) and staff units.

The purpose of the control activities is to ensure both the efficiency of the Group's processes and efficient internal control of identified risks. For the business operations, operational control systems form the basis for the established control structure and these focus on important stages in the business operations, such as investment decisions, assessment of tenders and permission to start up projects. NCC attaches considerable weight to project follow-up.

A strong focus is placed on ensuring the correctness of the business transactions included in the financial reporting.

For a number of years, NCC has had several SSCs, in part NCC Business Services (NBS), which manages most of the financial transactions of the Nordic operations, and in part the Human Resources Services (HRS), which manages NCC's payroll administration for the Nordic countries.

There is also Development & Operations (DOS), which has central responsibility for the shared IT systems in NCC.

The functions require that their processes include control activities that manage identified risks in a manner that is efficient for NCC in relation to the cost incurred. The units systematically and continuously develop their processes, using control target matrixes that connect risks, control and efficiency measurement, and ensure that the control is documented and that proof of control exists.

### 4 INFORMATION AND COMMUNICATION

Information and communication regarding the internal policies, guidelines, manuals and codes to which the financial reporting is subject are available on NCC's Intranet (MyNCC).

The information also contains methodology, instructions and supporting documentation in the form of checklists etc., and overall time schedules. It is a living regulatory system that is updated regularly through the addition of, for example, new regulations concerning IFRS and Nasdaq Stockholm. NCC's CFO has principal responsibility. MyNCC includes among others the following:

- Policies and regulations for the valuation and classification of assets, liabilities, revenues and expenses.
- Definitions of the terms used within NCC.
- Accounting and reporting instructions.
- Framework for self-evaluation of internal controls.
- Accounting function's organization
- Time schedules for audit and reporting occasions, among others.
- Decision-making regulations.
- Attestation instructions

All financial reporting must comply with the rules and regulations found on MyNCC.

Financial reporting occurs in part in the form of figures in the Group-wide reporting system and in part in the form of written comments in accordance with specially formulated templates. Instructions and regulations concerning both written and figure-based reporting are available on MyNCC.

Regular training programs and conferences are arranged for management and financial control personnel in respect of joint principles and frameworks concerning the requirements to which the internal control is subject.

The status of the internal control set-up is reported annually at a meeting of the NCC AB Board. Debriefing also occurs at business area level. The CFO of the NCC Group is responsible for ensuring that information about and communication of the control have been established and are effective.

### 5 FOLLOW-UP

Follow-ups to safeguard the efficiency and quality of the internal controls are conducted in various ways within NCC. NCC has developed a system (framework) for documented self-evaluation of internal control. Self-assessments are performed regularly for NCC's business areas, staff units and Group offices and comprise a component of the Board's assessment of internal control.

Operational control systems, the very basis of NCC's operations, are evaluated through audits of business areas' operations, during which any shortcomings are rectified. The internal controls are followed up via Board work within the various business areas and, in cases where it is considered that targeted action is required, the financial control and controller organization is utilized, or external consultants with suitable expertise for the assignment.

As part of its audit of the financial statements and the administration, NCC's auditor, PwC, also examines a selection of NCC's controls. The Audit Committee held five meetings during 2018. The duties of the Audit Committee in terms of the financial statements include monitoring the efficiency of the company's internal controls, internal audit and risk management. In December 2018, the NCC AB Board of Directors decided, through its Audit Committee, to establish an independent internal audit function, Group Internal Audit, in accordance with the Swedish Code of Corporate Governance. The function is led by the Chief Audit Executive and is responsible for providing independent and objective assurance and evaluation of risk management and internal control processes. The function plans its work in consultation with the Audit Committee and it reports directly to the Board of Directors through the Audit Committee. The Board meets the auditors at least once a year. In addition, the Chairman of the Board has direct contact with the auditors on a number of occasions during the year. Prior to these meetings, views from the audit of the business areas and subsidiaries have been presented to the Board meetings held in the particular business area/subsidiary or to the respective business area management. The views that arise are to be considered and followed up within the particular unit. NCC's auditor also reviewed the company's nine-month report.

### AUDITOR'S STATEMENT ON THE CORPORATE GOVERNANCE STATEMENT

To the general meeting of the shareholders in NCC AB, corporate identity number 556034-5174

#### *Engagement and responsibility*

It is the board of directors who is responsible for the corporate governance statement for the year 2018 on pages 90-99 and for that it has been prepared in accordance with the Annual Accounts Act.

#### *Scope of examination*

Our examination has been conducted in accordance with FAR's standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

#### *Opinions*

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 second paragraph of the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm 13 March 2019  
PricewaterhouseCoopers AB

Håkan Malmström  
Authorised Public Accountant  
Auditor-in-charge

Ann-Christine Hägglund  
Authorised Public Accountant